

**CITY OF DUVALL**  
**Code City**  
**King County, Washington**  
**January 1, 1991 Through December 31, 1991**

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**Schedule Of Findings**

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1. Accuracy Of Financial Reports Must Be Improved

The City of Duvall's 1991 annual report contained numerous unexplained errors and discrepancies between the report and the general accounting records.

As a result, the financial statements presented by the city were materially misstated and could not be relied upon to present fairly the revenues and expenditures of the funds of the city for the period January 1, 1991, through December 31, 1991, on the cash basis of accounting described in Note 1.

Our audit of the city's financial statements, notes, and schedules disclosed the following material errors and omissions:

- a. \$ 1,620 understatement of total cash reported at year end.
- b. \$34,599 overstatement of ending fund balance cash and investments in the Claims Clearing Fund (631), as compared to documented warrants outstanding.
- c. \$ 8,323 overstatement of disbursements in the Treasurer's Trust Fund (633) not reported in the general accounting records.
- d. \$27,895 net overstatement of operating transfers into the General Fund not reported in the general accounting records.
- e. \$27,762 of interfund payments reported as "Other Financing Uses" in the Water Fund (401), but as operating costs in the Sewer Fund (402).
- f. \$55,416 open period expenditures were not properly reported in the 1991 financial statements.
- g. The Schedule Of Long-Term Debt was misstated.
- h. The Schedule of State Financial Assistance was not prepared.
- i. The city did not maintain a complete warrant register for the Payroll Clearing Fund (632).

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources . . . and all expenditures for every purpose, and by what authority authorized . . . .

Failure to present annual reports in a complete and accurate manner denies the public and investors in the city's bonds a complete picture of the city's financial position. It also precludes the city council from having meaningful information for decision making.

This appears to have been caused by the implementation of a new computer system, inadequate reconciliation of the accounting records on a routine and timely basis throughout the year, and lack of adequate review of the financial reports prior to issuance. We believe these conditions constitute a material internal control weakness in relation to the financial statements.

We recommend that city officials:

- a. Review and apply the *Budgeting, Accounting and Reporting System* (BARS) manual procedures set forth by the State Auditor.
- b. Take greater care in the preparation of annual reports.
- c. Perform a thorough reconciliation and review of the reports prior to issuance to detect errors or omissions.

2. City Should Retain All Necessary Records

At the time of our field work in late 1992, the general accounting records (the revenue and expenditure ledgers and the claims warrant register) were not available for audit.

During the remodeling of city hall, the records were either lost or mislaid. They could not be located and had to be reproduced from the city's history computer disks.

RCW 40.14.070 states in part:

. . . Except as otherwise provided by law, no public records shall be destroyed . . . unless:

(1) The records are six or more years old;

(2) The department of origin of the records has made a satisfactory showing to the state records committee that the retention of the records for a minimum of six years is both unnecessary and uneconomical, particularly where lesser federal retention periods for records generated by the state under federal programs have been established; or

(3) The originals of official public records less than six years old have been copied or reproduced by any photographic, photostatic, microfilm, miniature photographic, or other process approved by the state archivist which accurately reproduces or forms a durable medium for so reproducing the original . . . .

Because the original accounting records could not be located, and because all the accounting records were not reconciled throughout 1991, nor at year end, we were unable to determine if all transactions made during the year were properly reported in the financial statements.

We recommend that city officials institute procedures to ensure that all records are adequately retained for at least six years and that these records be available for audit.

3. Annual Financial Reports Should Be Prepared And Submitted On A Timely Basis

The City of Duvall did not prepare and submit the required annual financial reports in a timely manner. The annual report for 1991 was incomplete and was not submitted until November of 1992.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all accounts of the same class.

Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year . . . .

When the financial records of the city are not prepared in a timely manner, the state legislature, city officials, the general public, city bondholders, and other interested parties are denied the financial information needed to make informed decisions and to ensure the accountability of city officials.

When the required financial reports are incomplete, extra time and effort is demanded from both city personnel and the auditor for their preparation and review. This translates into extra costs to the city to complete the audit.

The delays in the submission of a complete annual report appear to have been due primarily to the lack of reconciliation of the accounting records on a routine and timely basis throughout the year, and to demands of staff time on other city projects.

We recommend that city officials take appropriate action to assure that all required financial reports are prepared and submitted in a timely manner.

4. Controls Over City's Budget Operations Must Be Strengthened

Our examination of the City of Duvall's 1991 budget operations revealed the following problems.

- a. Expenditures exceeded budgetary appropriations in the Water Fund (401), the Sewer Fund (402), the Real Estate Excise Tax Fund (304), the Storm Drain Capital Improvement Fund (303), and the Land Acquisition Fund (321).
- b. In 7 out of the city's 18 operating funds, the amount reported as total budget appropriations in the city's 1991 financial statements did not agree with the total fund appropriations in the budget and amending budget ordinances.
- c. Not all funds were budgeted on an individual fund basis in the year-end budget ordinance. All debt service funds were combined into a one line item in the budget ordinance, and of the remaining funds, only eight of them were separately identified in the budget ordinance.
- d. The city's published budget document included only 4 funds, out of a total of 18 operating funds.
- e. The city's published budget document did not include salary schedules or rates for city employees, either in its text or in an attached schedule.

Cities are prohibited from incurring expenditures in excess of budgeted appropriations by RCW 35A.33.120, which states in part:

The expenditures as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing year. Unless otherwise ordered by a court of competent jurisdiction . . . the expenditure of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year . . . .

In addition, RCW 35A.33.125 states in part:

Liabilities incurred by any officer or employee of the city in excess of any budget appropriations shall not be a liability of the city. The clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund . . . .

RCW 35A.33.040 states in part:

All estimates of receipts and expenditures for the ensuing year shall be fully detailed in the annual budget and shall be classified and segregated according to a standard classification of accounts to be adopted and prescribed by the state auditor . . . .

RCW 35A.34.070 states in part, that for the budget:

. . . The expenditure section shall further set forth separately the salary or salary range for each office, position, or job classification together

with the title or position designation thereof. However, salaries may be set out in total amounts under each department if a detailed schedule of such salaries and positions be attached and made a part of the budget document.

The apparent cause of these deficiencies in the 1991 budget and in the budget as reported in the city's 1991 annual report appears to be a lack of diligence by city officials in preparation of the budget document and the annual report, and insufficient monitoring of city activities. The result of this is that the city appears to be out of compliance with budget statutes. Furthermore, if all funds are not appropriately incorporated into the budget document, opportunity for citizen input into the budget process is compromised.

We recommend that city officials and management take greater care in preparation of the city's annual budget and annual report to ensure that the budget document includes all funds and all necessary salary information, and that the annual financial report agrees with city budget ordinances. We further recommend that city officials institute procedures to more adequately monitor expenditures to ensure that budgetary appropriations are not exceeded in any fund.

5. Use Of City Credit Cards Must Be Restricted To Travel Related Expenditures

During 1991, we were able to identify a total of \$1,684.28 in charges made to the city's Mastercard charge account with Seafirst Bank. Of these charges, \$807.09 were made at businesses within the city limits of Duvall. In addition, for \$894.53 of the \$1,684.28 total expenditures, the supporting documentation was not sufficient for us to determine what public purpose was served.

RCW 42.24.115 states in part:

... Any municipal corporation or political subdivision may provide for the issuance of charge cards to officers and employees for the sole purpose of covering expenses incident to authorized travel . . . .

The City of Duvall's travel policy states in part:

... City of Duvall employees shall be reimbursed their actual authorized expenses for travel costs, accommodations, and meals necessarily incurred while on city business. Such personal expenses shall be listed on an appropriate claim form to be furnished by the City Clerk and the actual expenses shall be substantiated by receipts or vouchers . . . .

While the city's policy is silent as to what constitutes "travel", expenses incurred within the city limits of a community cannot be interpreted as being made when an individual is on travel status. Therefore, the \$807.09 of credit card charges referenced above appear to be in violation of RCW 42.24.115.

In addition, none of the vouchers supporting any of the \$1,684.28 credit card payments tested contained the "appropriate claim form" to show that the expenses incurred were travel related, and therefore in compliance with the city's written travel policy.

This has the effect of putting the city out of compliance with its own regulations on travel, and with state law. Furthermore, failure to document the purpose of expenditures incurred on the city's credit cards leaves open the possibility for misuse of credit cards by officials.

We recommend that city officials institute written policies and procedures to ensure that credit cards are used only for authorized travel expenses, and require that all payments be supported by the appropriate claims forms to adequately document the nature of the expenditure and the public purpose served.

6. Compensation Of Municipal Officials Should Be Limited To Amounts Authorized By Ordinance

During 1991, the City of Duvall was compensating members of its city council at a rate of \$40 per regularly scheduled meeting to a maximum of two meetings per month, or \$80 per month.

City Ordinance 370, passed on September 8, 1983, and in effect during 1991, states in part:

Each member of the council of the City of Duvall shall be paid \$35.00 for attendance at each regular meeting of the City council, not to exceed two meetings each month.

This has the effect of limiting council member's salaries to a maximum of \$70 per month. Therefore in 1991, council members were overpaid \$10 each month if they attended each regular meeting. Given that there are 5 council members, this means that an overpayment of approximately \$600 was made in 1991. According to city management, the \$40 per meeting rate has been used for the past several years.

We recommend that city officials require that payment to council members be in accordance with the established rates. We further recommend that management research the length of time that the incorrect rate has been in use, and seek recovery of the past overpayment.